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Peru

Grain and Feed

Annual

2002

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Report Highlights:

The U.S. was once more the lead wheat exporter to Peru in 2001. Total wheat imports into Peru are forecast at 1.45 MMT for MY2002/2003 with 600,000 MT from the U.S. Corn imports are forecast at 720,000 MT in MY 2002/2003, 25 percent of which should be U.S. origin. Rice imports are forecast to decline again 2002 to 55,000 MT, with minimal from the U.S. Post continues to monitor closely market access concerns that affect U.S. grain exports, especially corn and rice, to Peru.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Lima [PE1], PE

Executive Summary

Wheat imports for Marketing Year 2002/2003 (July/June) are forecast at 1.45 Million Metric Tons (MMT). As the Peruvian economy recovers from a long economic recession, demand for wheat products is also expected to increase. Though wheat consumption has been rather steady at around 1.2 million MT for a few years now, it increased to 1.4 in 2001. Looking at the per capita consumption of some products (bread only 38 kilograms per annum), there is plenty of room for growth.

Post forecasts corn imports to reach 720,000 MT during MY (October/September) 2002/2003. Though corn consumption is expected to increase as the Peruvian economy recovers, due to an agreement signed between corn producers and poultry producers, and sponsored by the government, a considerable reduction in corn imports is expected in the up coming years. These agreement aims to increase local production to a level of self-sufficiency within five years.

Though rice imports into Peru continue their downward trend, imports for MY2002 are forecast to reach 55,000 MT, an increase from the previous year. This sharp decrease in imports, that began in 1996, is the result of a government policy to encourage rice production through credits for seeds and fertilizers.

PSD Table						
Country	Peru					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	146	146	140	154	0	160
Beginning Stocks	200	177	200	193	200	193
Production	187	187	170	194	0	190
TOTAL Mkt. Yr. Imports	1500	1279	1500	1406	0	1450
Jul-Jun Imports	1500	1279	1500	1406	0	1450
Jul-Jun Import U.S.	0	305	0	559	0	600
TOTAL SUPPLY	1887	1643	1870	1793	200	1833
TOTAL Mkt. Yr. Exports	21	0	5	0	0	0
Jul-Jun Exports	21	0	5	0	0	0
Feed Dom. Consumption	70	170	70	190	0	190
TOTAL Dom. Consumption	1666	1450	1665	1600	0	1650
Ending Stocks	200	193	200	193	0	183
TOTAL DISTRIBUTION	1887	1643	1870	1793	0	1833

Import Trade Matrix			
Country	Peru		
Commodity	Wheat		
Time period	2001	Units:	Metric Tons
Imports for:			
U.S.	559,787		
Others			
Argentina	484,259		
Canada	354,369		
Total for Others	838628		
Others not Listed	7642		
Grand Total	1406057		

Wheat

Production

Wheat is a minor crop in Peru. Production in 2002 is forecast at 190,000 MT and is likely to remain around that level in the near future. Most wheat produced in Peru, grown by poor peasants in the highlands of the Andes under very rudimentary cultural practices, is soft and consumed directly as soups and purees.

Crop area increased from 145,000 hectares in 2000 to 154,000 hectares in 2001. This increase is not uncommon in Peru, the area planted may vary significantly from year to year depending on prices and producers' profit expectations. Average yields in 2001 were 1.26 MT per hectare, about the same level as the previous year.

Consumption

A strong recession began in Peru in 1999, and continued throughout 2001. As a result, flour and pasta production remain flat. Flour consumption was about 855,000 MT in 2001. Pasta consumption in 2001 was 230,000 MT. In an effort to try to maintain consumption levels, many wheat mills have had to reduce in profit margins and in many cases operate below their break even point.

With 10 kilograms per capita, Peru continues to be the second largest pasta consumers in South America. Bread consumption on the other hand, about 38 kilograms per annum, remains at very low levels compared with consumption in other countries in the area. Wheat disappearance in Peru has remained constant over the last three years, due to population growth.

Trade

Peru's wheat imports in 2001 reached an all-time record of 1.4 MMT. With 559,787 MT, the U.S. was the largest wheat exporter to Peru followed by Argentina and Canada. Peru's total wheat imports in MY 2002/2003 are forecast to reach 1.45 MMT, with at least 600,000 MT coming from the U.S.

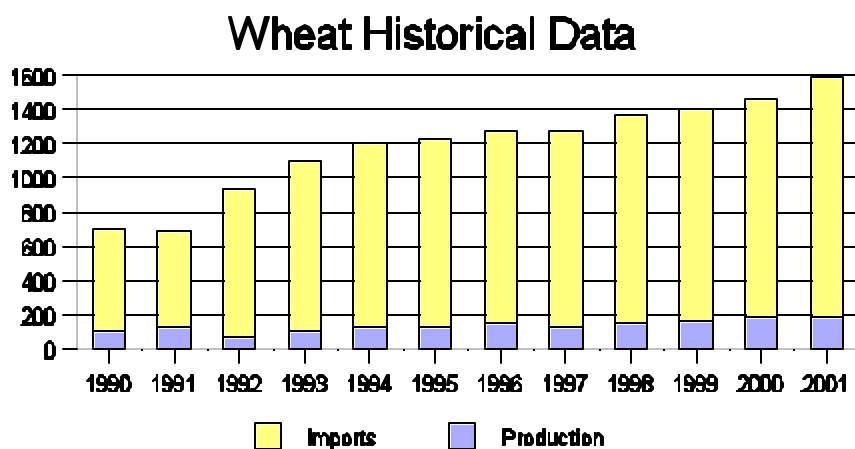
The volume of wheat imports from the U.S. has historically depended on the size of the Argentine crop and its availability for export. The recent economic crisis in Argentina which, among other things, resulted in a strong devaluation will probably make Argentine wheat more competitive in the international market.

Policy

The GOP has no specific policy to promote production of wheat. There have been some efforts, such as rotating funds, to assist poor peasants with small credits but they have not had a major impact on production. Alicorp, Peru's major wheat importer, has begun experimenting on durum wheat production. It has already imported seed from the U.S. and expects to replace some imports with local production in the near future.

As part of the Andean Community, Peru is negotiating a trade agreement with Mercosur. Grains will probably be one of the most important agricultural trade issues, especially for Argentina. But since Peru has been the most progressive country in the region in reducing its tariff rates, it is very unlikely that any further reduction or preference will be granted, especially for wheat, Peru's largest agricultural import and revenue source.

Peru exports very limited quantities of pasta to Chile and Ecuador, but due to a higher import duty its prices are not very competitive. Wheat in Peru is assessed 25 percent ad valorem plus 18 percent value-added tax (VAT), compared with Chile and Ecuador where the ad-valorem is only 10 percent.



PSD Table						
Country	Peru					
Commodity	Corn				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Area Harvested	510	518	565	560	0	580
Beginning Stocks	100	36	100	48	100	48
Production	1230	1387	1340	1450	0	1500
TOTAL Mkt. Yr. Imports	900	862	900	700	0	700
Oct-Sep Imports	900	862	900	700	0	700
Oct-Sep Import U.S.	0	214	0	220	0	220
TOTAL SUPPLY	2230	2285	2340	2198	100	2248
TOTAL Mkt. Yr. Exports	4	0	0	0	0	0
Oct-Sep Exports	4	0	0	0	0	0
Feed Dom. Consumption	1946	1700	2050	1750	0	1800
TOTAL Dom. Consumption	2126	2237	2240	2150	0	2200
Ending Stocks	100	48	100	48	0	48
TOTAL DISTRIBUTION	2230	2285	2340	2198	0	2248

Import Trade Matrix	
Country	Peru
Commodity	Corn
Time period	2001
Imports for:	
U.S.	214204
Others	
Argentina	622692
Paraguay	16531
Total for Others	639223
Others not Listed	9253
Grand Total	862680

Corn

Production

Corn production in Peru is estimated at 1.45 MMT for MY (October/September) 2002/2003. Among the several types of corn produced in Peru, the most important varieties are starchy corn, with production estimated at 287,000 MT in 2001, which is consumed directly by humans and yellow corn, with production estimated at 1.1 MMT for the same period of time, which is primarily used in the animal feed industry.

With favorable weather conditions and strong support by the government to substitute corn imports for local crop, and an increase in the crop area as well as better yields are expected for the year 2002.

The harvested area in 2001 was 297,000 hectares and 221,000 hectares for yellow and starchy corn respectively compared with 270,000 hectares and 245,000 hectares in the previous year. Yields are expected to be around 3.40 MT per hectare for yellow corn and 1.13 MT per hectare for starchy corn. Corn is mainly grown along the Peruvian coast and in the range forest on the eastern slopes of the Andes.

Consumption

Peru has a 21 million chicken-per-month poultry market, which is the major user of yellow corn. Corn consumption is estimated at 2.1 MMT for 2002. Poultry meat continues to be one the cheapest source of protein in the Peruvian diet. A major problem poultry producers have to face is competition from informal producers, who account for about 30 percent of the poultry meat industry. The problem is that corn consumption goes up and down principally due to changes in poultry population.

Trade

In CY2001, Peru imported 862,680 MT of yellow corn, of which 214,204 MT came from the U.S. and 622,692 MT from Argentina. Feed producers and large poultry operations claim that corn from Argentina comes with less broken kernels.

Policy

Though the GOP does not have any direct subsidy or assistance program to encourage corn production, there has been some support through rotating credit funds. The Ministry of Agriculture has sponsored an agreement between corn and poultry producers to encourage corn production in the eastern region of the country. This area is excellent for corn production, but transportation infrastructure is poor and in some cases does not exist.

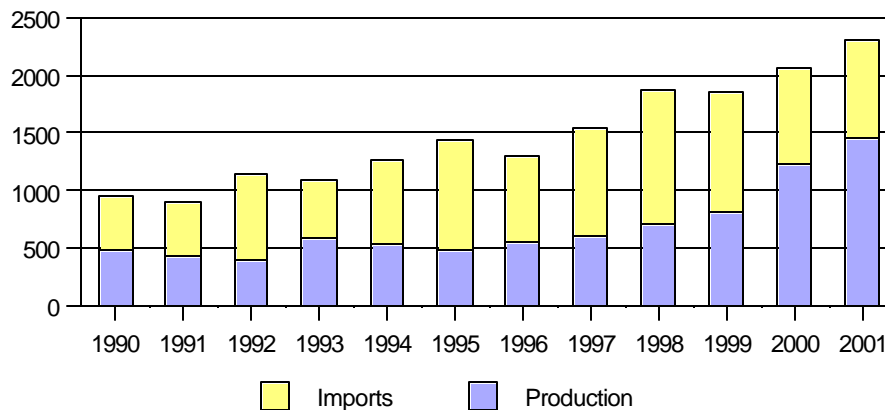
So far the program to encourage corn production has been successful. In the La Merced area, on the eastern slopes of the Andes, the only poultry producer in the area is purchasing local corn. On the coast,

the third largest producer in the country is purchasing only local corn, through an agreement signed with corn producers in the area. The largest producer in the country, with about fifty percent of total poultry production has started some trials to produces corn .

Corn imports are assessed 17 percent import duty on CIF basis, plus a variable levy applied under the Price Band System. The Price Band System is an import tax, that depends on international prices, which assures that the import price of specific commodities, after payment of the levy, will equal a predetermined minimum import price. This tax, which is imposed on certain "sensitive" products, is expressed in dollars per metric ton. The current levy for corn is \$ 20 per MT, compared to an f.o.b. gulf price of \$ 95 per MT.

The Poultry Producers' Association has signed an agreement with the Corn Producers' Association whereby the poultry producers are committed to purchase all locally produced yellow corn. This is the second attempt in three years to create a symbiosis relationship between these two groups. According to private sector officials, if this agreement is successful, corn production could double to 1.6 million metric tons in the upcoming years, becoming self-sufficient. Local corn production is expected to replace additional imports over the next five years.

Corn Historical Data



PSD Table						
Country	Peru					
Commodity	Rice, Milled				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Area Harvested	240	304	240	310	0	315
Beginning Stocks	213	45	173	32	133	92
Milled Production	1110	1425	1100	1500	0	1530
Rough Production	1609	2065	1594	2174	0	2217
MILLING RATE (.9999)	6900	6900	6900	6900	0	6900
TOTAL Imports	150	62	100	55	0	50
Jan-Dec Imports	150	62	100	55	0	50
Jan-Dec Import U.S.	0	1	0	1	0	1
TOTAL SUPPLY	1473	1532	1373	1587	133	1672
TOTAL Exports	50	50	40	25	0	50
Jan-Dec Exports	50	50	40	25	0	50
TOTAL Dom. Consumption	1250	1450	1200	1470	0	1525
Ending Stocks	173	32	133	92	0	97
TOTAL DISTRIBUTION	1473	1532	1373	1587	0	1672

Import Trade Matrix			
Country	Peru		
Commodity	Rice, Milled		
Time period	2001	Units:	Metric Tons
Imports for:			
U.S.	537		
Others			
Uruguay	59223		
Argentina	2731		
Total for Others	61954		
Others not Listed	67		
Grand Total	62558		

Rice

Production

Rice production for MY (January/December) 2002 is forecast at 1.5 MMT (milled basis), about five percent higher than the previous year. Rice in Peru is surface irrigated, which depends on the supply of water draining from rivers in the Andes Mountains. Most of the rice in Peru is harvested May through September. Most of the water reservoirs in the northern part of country are above 60 percent of their full capacity as of February which is more than adequate, since the planting season has already ended.

Major rice production areas in Peru are Lambayeque and Piura in the northern region, and Arequipa in the south. Average yields are 6.27 metric tons per hectare, but some farmers have yields as high as 14 metric tons per hectare (paddy rice). Rice quality and yields vary greatly, as much of the production is carried out by small producers, with input levels dependent on prices and economic conditions.

Consumption

Per capita rice consumption is estimated at 46 kilograms. Rice is sold traditionally in small markets, weighed out and bagged from 50 kilos sacks. In recent years Peru has seen a rapid expansion of the supermarkets chains, this has changed several consumer habits and rice has not been an exception. There is a growing demand for prepackaged one kilogram bags of rice, which now total 15 percent of all rice sales. The higher quality rice, including U.S. rice, is generally marketed in this way.

Trade

Peru imported 62,558 MT of rice in 2001, nearly all of which (59,223 MT) came from Uruguay. The largest rice importer, who owns the leading brand for bagged rice, has a long term relationship with an Uruguayan rice exporter which not only provides good quality rice at a competitive price, but also grants them credit. Since the GOP implemented a ban on Asian rice based on phytosanitary issues, the imported rice market has been shared mostly by the U.S. and Uruguay.

Though there are no official statistics, post estimates that about 25,000 MT of Peruvian rice is smuggled to Ecuador.

Policy

The GOP does not have any direct production subsidy or support programs in the agricultural sector. The government does buy rice from local producers to support social feeding programs, but the quantities purchased are very limited. Production credits are very difficult to obtain in the agricultural sector. This has restrained farmers from changing from rice to more profitable crops, such as fruits and vegetables.

Since CY1998 the GOP has been encouraging rice production through input credits and rotating funds. Though production has grown sharply during the last 3 years, it has been an economic disaster for

producers. Having flooded the market with rice and with large carry over stocks and no possibility of exporting, other than what is smuggled into Ecuador through the northern border, prices have plummeted making almost impossible the recovery of producers' investment. As a consequence, farmers are not able to honor their credits and in many cases are losing their land, in addition to their already eroded reputation with the formal financial system.

Rice imports are assessed 25 percent import duty on CIF plus a variable levy applied under the Price Band System. The Price Band System is an import tax, that depends on international prices, which assures that the import price of specific commodities, after payment of the levy, will equal a predetermined minimum import price. This tax, which is imposed on certain "sensitive" products, is expressed in dollars per metric ton. The current levy for rice is \$ 221 per MT, compared an f.o.b. gulf price of \$ 190 per MT.

